Senior Investors Bulletin

A Guide for Missouri's Older Investors

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Secretary of State

SENIOR INVESTOR BULLETIN

A GUIDE FOR MISSOURI'S OLDER INVESTORS

Older Missourians cannot leave the fate of their retirement nest eggs to chance. There is always some element of uncertainty in investing, but when the money at stake represents a lifetime of savings or a lump sum pension payment money that is crucial for retirement and cannot be recaptured taking undue risk may spell disaster. Unfortunately, it can sometimes be difficult for older investors to know when the risk is too great, or if they are being misled into investing in a product that is unsuitable to their needs.

There are a number of practices in the "legitimate" investment industry that pose serious problems for the 550,000 older Missouri investors who rely on investment income to make ends meet. Even if substantial reforms are adopted by the industry and regulators to correct these problem practices, older Missourians must still get actively involved in overseeing their investments.

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Define your financial goals

Map out your financial goals before you meet with a financial planner, broker, investment advisor or any other investment professional. Going to the experts in certain instances will help you decide how to invest your savings, but you should first have a firm grasp of your short- and long-term goals and needs. How much income will you need to meet fixed expenses, apart from any pension or Social Security income? Do you have children or grandchildren to educate? Are your elderly parents in need of care? How is your own health? You need to determine your own budget needs and your ability to tolerate risk first, and decide what kinds of investments would best fulfill these goals.

This also means you should take time to understand the various investment products you may be considering. If you receive a lump-sum pension payment or an early retirement pay-out, you may feel pressure to invest it quickly in order to avoid adverse tax consequences. Sound investing requires careful consideration. If you need time to fully explore your options, put the funds in a money market and then invest once you feel ready to do so. Otherwise, you may be susceptible to high pressure sales tactics of those who will "take care of your problems for you." A quick fix is not the answer in this situation. Your money is too important to lose!

Know your investment professional

The first step in dealing with an investment professional is to contact the Missouri Secretary of State's Office, Securities Division. You can reach us by phone at 1-800-721-7996. Or write to: Missouri Securities Division, PO Box 1276, Jefferson City, MO 65102. You should avoid doing business with financial professionals who have an established record of state, federal or self-regulatory disciplinary actions, negative arbitration decisions or civil litigation judgments. The Securities staff will gladly review your investment professional's case history for you.

Always take time to interview two or three investment professionals before settling on the one who seems to best understand your needs. Don't assume that a broker who sells investments on the premises of a bank is part of the bank, or is selling products protected by FDIC insurance.

Recognize that a broker who goes by the titles of “financial consultant” or “investment counselor” does not necessarily have any extra training or expertise other than that of selling stocks and bonds. If you are working with an investment advisor, ask to see both parts of their Form ADV. (They are required to give you Part Two, which sets out their method of compensation, education, areas of expertise, investment strategies, business methods and the like.) Part One can also be helpful, as it provides you with their disciplinary history, which could raise important red flags. This also should correspond with the information provided by the Securities Division.

Understand your investments

Focus on the whole range of an investment’s characteristics in your decision-making, not simply on promises of a high return. Before you purchase an investment, you should understand the cost, degree and nature of the risks, investment goals (e.g., income with a high degree of safety), performance history and any special fees associated with the investment. Never assume that your investment is federally insured, low risk or guaranteed to deliver a certain return.

You should ***not*** rely on oral statements for assurance—get it in writing and make sure you understand the information you are given. Once you have that information, check it against your own goals and risk tolerance to see if the recommended type of investment is a good fit.

The most detailed source of information on an investment product is the prospectus (or similar offering document). Unfortunately, most prospectuses are too long and too technical for anyone other than a sophisticated investor to comprehend. However, you don't have to read every word to understand the nature and risk of the investment. Pick out the essential information provided in the document to determine if the product is right for you. For a mutual fund, for example, make sure you get answers to the following:

- What are the fund's goals and investment strategies?
- What are the fees and other costs involved, and how do they compare to comparable funds?

- How are the costs determined?
- What is the fund's performance and management history? How does it compare with similar funds?
- What are the risks involved with each of the investments in a bond or mutual fund? How does it compare with comparable funds?
- Are derivatives part of the fund? If so, are they used for hedging or speculating?
- Who makes investment decisions for the fund?
- Who can you call for more information?

These are just some of the questions to ask about a mutual fund. Your local library is a good source for publications on investing. For example, the Morningstar research firm publishes detailed analyses of investment products. Our Securities Division and the Securities and Exchange Commission also have brochures providing information about investments.

Know the fee structure

Understand how your investment professional is making money by selling an investment. If you truly want objective advice, you have to be prepared to pay for it. A fee-only financial planner will charge you a certain amount up front, but does not earn income based upon what recommendations he or she makes to you. However, brokers and financial planners are paid through commissions, which means that they get a percentage of the money you allocate toward a particular investment.

For example, if you give them $5,000 to invest in a mutual fund, their commission may be 4 percent, or $200, making your actual investment in the fund $4,800. When the commission is deducted from your investment, you lose not only that money, but the investment income it would have earned over time. A good rule to remember is that the amount of the commission varies by the type of product, and the risk associated with the product. So, in most cases, the higher the risk, the higher the commission.

Just because a broker calls himself a "financial analyst" or "investment consultant" does ***not*** mean that he provides objective financial advice. ***Do not confuse a sales pitch with impartial advice.*** Be wary of brokers who seem overly eager to put you into an in-house mutual fund, or in exotic investments you have never heard of before. Ask the broker if he or she will receive any extra commission or other incentives (such as a prize or trip) for selling you a certain product.

Uninsured products sold on bank premises

Exercise particular caution when buying uninsured investments on the premises of a bank. Although a bank may provide you with more convenience and be less intimidating than a brokerage firm, it does not provide you with any more assurance against the possible loss of principal in an uninsured investment. In fact, the brokerage firms affiliated with banks sometimes offer only a limited range of investment options, and may be prone to pushing their own products. While you may feel more comfortable dealing with your bank (or someone else doing business there), you should not let convenience guide your decision about where to invest. Securities sold by a bank are not insured by FDIC. Government mutual funds and government bond funds do not carry any government insurance against loss.

Understand your account statements

Make sure you fully understand your account statements. Your account statement should reflect only the pattern of investing that ***you*** have authorized. If you note a discrepancy, raise the problem immediately with your broker, and, if necessary, the branch manager who supervises the broker.

Review your account statement to see how your investments have performed and how much they are costing you in terms of commissions and fees. Since you are unlikely to find this information on your account statement, contact your financial professional and ask that these be calculated for you, and have the results provided to you in writing. Do ***not*** work with a financial professional who is unwilling to do this, or who claims to be unable to provide this information.

Don't be embarrassed to ask questions about the meaning of unfamiliar terms and abbreviations that appear on your account statement. An investment professional who is unwilling to take the time to answer your questions is someone to whom you probably do ***not*** want to be entrusting your life savings. The account statement is your primary tool as an investor for policing your investments, so make sure to take full advantage of it.

Be curious

Never be afraid to ask questions at any stage of the investment process. You are the person in control of your money, even if you hire an expert to help you manage it. ***Don't sign over discretion for your account to your broker,*** as his or her idea of a "good trade" may not be in your best interest. You have every right to ask a financial professional why he or she is making a certain recommendation to you, what the alternatives are, what the risks are, and how much he or she will be paid for the transaction. If you are uncertain about a product, or what is being sold to you, ask questions until you understand. If someone tries to assure you by stating that the uninsured investment is as safe as "the money in your pocket," it is time to walk out the door…while your money ***is*** still in your pocket!

Services of the Missouri Division of Securities

The Missouri Securities Division is a division of the Office of the Secretary of State. The Securities Division registers securities and licenses the individuals who sell them. The staff of the division is available to answer questions, receive complaints or check licenses and disciplinary history between the hours of 8 a.m. and 5 p.m. The office is located in Room 229 of the James C. Kirkpatrick State Information Center in Jefferson City.

Inquiries about securities registration:
(573) 751-4136

Inquiries about agent licensing:
(573) 751-2061

Toll-free hotline:
(800) 721-7996

Brochures available from the Missouri Securities Division:

101 Questions to Ask Before Investing—A guide for beginning investors

How to Choose a Stockbroker—A guide for beginning investors

How to Read a Prospectus—A guide for beginning investors

Penny Stocks—A guide for beginning investors

Your Securities Account—A guide for beginning investors

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